

# **Unincorporated Area Revenue Estimation and Analysis**

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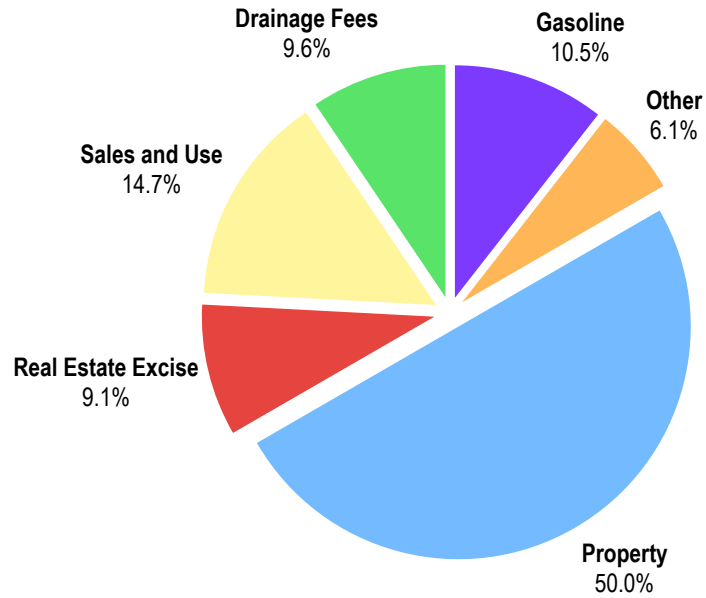
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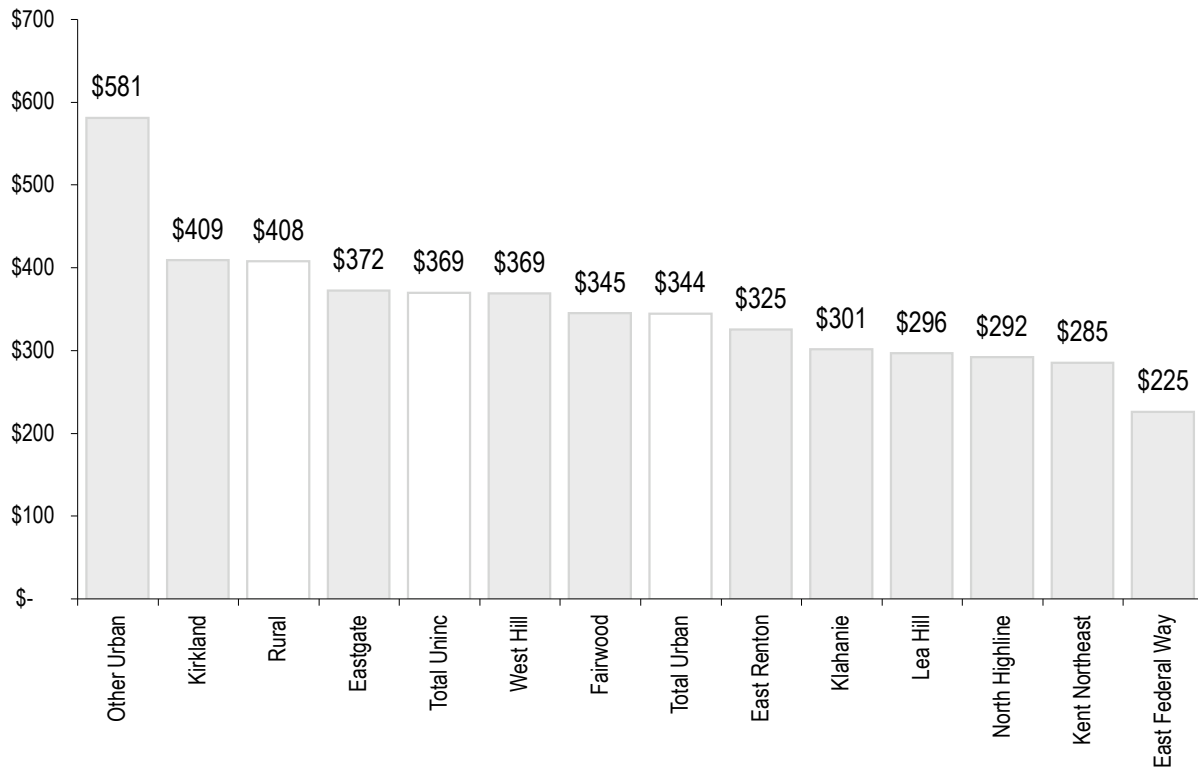
## 2006 Total Unincorporated Revenue

Excluding Permit and Timber Revenues



## Per Capita Local Tax Receipts

2006 Forecast, Unincorporated Areas



## I. Present County Collections: Estimation Methodology for Unincorporated Revenues

### A. Property Taxes

Property tax estimates are developed from two interconnected components: the total amount levied and assessed valuation.

The 2006 Unincorporated Area Levy or Roads District Levy reflects action by the County Council in December 2005, as adjusted by the King County Assessor to conform with levy limitations under Initiative 747.

Assessed valuation is based on 2004 assessment data, used to calculate taxes collected in calendar year 2005. Each parcel in unincorporated King County was geocoded—geographically placed at a point relative to the urban growth boundary and the ten major potential annexation areas.

The 2006 unincorporated assessed valuation projection is a subset of the countywide forecast model. As part of the annual budget process, assessed valuation is estimated from an overall trend analysis that regressed historic assessed valuation growth, construction and construction-related sales tax receipts, and anecdotal reports from the King County Assessor's Office. The proportion of assessed valuation growth attributable to the unincorporated area is estimated from a parallel model of historic growth, sales tax data, and DDES permitting activity. These estimates are closely correlated with overall 2006 data recently released by the assessor.

Aggregated assessed valuation for each of the ten major potential annexation area, other urban areas, and the rural area were than projected to 2006 by allocating overall growth. The primary allocation factor was again permit activity with adjustments for anticipated revaluation disparities among the major potential annexation areas.

A longer term projection has also been prepared by extending the short term model, forecasted personal income growth, and the County Demographer's population forecast for the same period. This table of assessed valuation by potential annexation area includes 2006 actuals calculated in February 2006 from newly released 2005 assessment records (for collection in 2006).

### Local Revenue Analysis

#### 2006 Estimate by Major Potential Annexation Area Unincorporated Area Levy

East Federal Way	2,388,491
Eastgate	1,065,860
East Renton	1,492,059
Fairwood	7,260,871
Kent Northeast	3,348,777
Kirkland	7,686,531
Klahanie	2,311,428
Lea Hill	1,450,079
North Highline	3,741,131
West Hill	2,133,814
Other Urban	6,641,917
<b>Total Urban</b>	<b>39,520,959</b>
<b>Rural</b>	<b>36,530,427</b>

#### County Revenue Collection Experience

##### Unincorporated Area Levy

2000	2001	2002	Actual 2003	2004	2005	2006*	Projected			
46,693,350	50,936,973	55,069,054	59,554,946	64,602,595	70,315,226	76,051,386	78,944,712	81,949,575	85,068,502	88,306,136

\* Approximately \$875,000 will be paid to the City of Issaquah due to the annexation of the South Cove area.

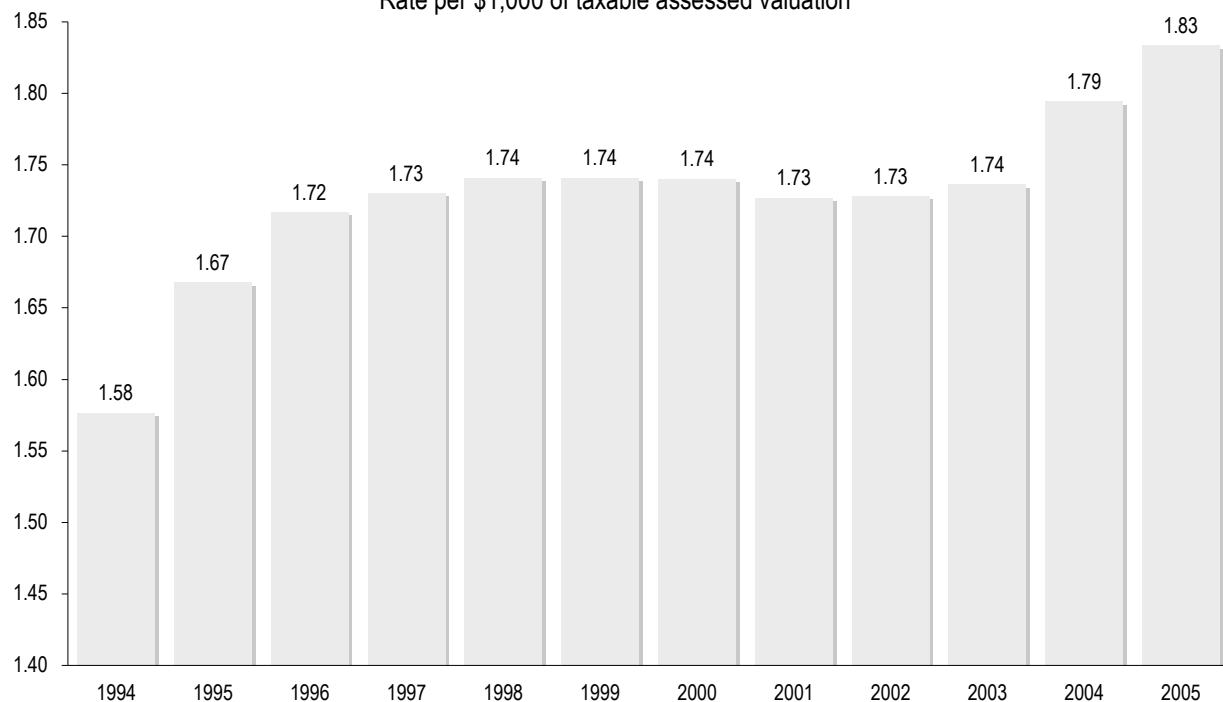
## Estimated Taxable Assessed Valuation

Major Potential Annexation Areas, 2003-2006 actuals, 2007-2010 forecast

	2003	2004	2005	2006	2007	2008	2009	2010
Finn-Juanita	3,085,508,931	3,450,296,029	3,861,771,348	3,919,640,816	4,040,993,323	4,202,142,084	4,362,006,736	4,528,014,332
Klahanie	1,066,372,585	1,133,253,975	1,172,234,246	1,232,325,640	1,270,478,577	1,321,143,359	1,371,404,421	1,423,596,810
East Federal Way	1,296,087,782	1,396,589,934	1,199,995,959	1,473,758,109	1,519,385,820	1,579,976,651	1,640,084,666	1,702,502,385
North Highline	1,601,380,564	1,859,586,447	1,915,374,041	2,156,742,587	2,223,515,573	2,312,186,044	2,400,149,947	2,491,493,942
West Hill	952,968,700	1,060,644,731	1,092,464,073	1,271,285,903	1,310,645,053	1,362,911,615	1,414,761,692	1,468,604,155
Fairwood-Petrovitsky	2,844,417,644	3,222,645,617	3,647,916,281	3,687,450,001	3,801,613,854	3,953,216,521	4,103,611,147	4,259,784,821
Renton East	615,608,630	648,285,268	756,693,573	749,001,110	772,190,266	802,984,057	833,532,469	865,254,731
Eastgate	488,816,410	538,745,532	545,695,852	591,827,995	610,151,054	634,482,964	658,620,986	683,686,534
Kent Northeast	1,403,894,994	1,561,489,408	1,714,497,693	1,783,033,305	1,838,236,211	1,911,542,317	1,984,264,287	2,059,780,663
Lea Hill remainder	887,001,524	669,281,703	725,142,139	815,827,769	841,085,885	874,627,131	907,901,104	942,453,659
Other	3,585,112,162	3,988,927,595	3,400,510,381	5,069,978,347	5,226,945,430	5,435,388,185	5,642,169,970	5,856,897,532
Total Urban	17,827,169,926	19,529,746,240	20,032,295,585	22,750,871,582	23,455,241,046	24,390,600,928	25,318,507,425	26,282,069,564
Rural	15,332,086,161	16,472,434,551	18,526,305,575	18,536,646,845	19,110,543,452	19,872,643,302	20,628,670,383	21,413,748,485
Total Taxable AV	33,159,256,087	36,002,180,791	38,558,601,160	41,287,518,427	42,565,784,498	44,263,244,230	45,947,177,808	47,695,818,049
\$2.25 Statutory Limit	74,608,326	81,004,907	86,756,853	91,987,663	95,773,015	99,592,300	103,381,150	107,315,591

## Historic Unincorporated Area Levy Levels

Rate per \$1,000 of taxable assessed valuation



## B. Real Estate Excise Tax

A complete database of taxable real estate transactions was constructed for the years between 2000 and 2004, and the first six months of 2005, including the taxable amount and parcel number. Data were cross-referenced with the geocoded 2004 Assessment file (for 2005 tax liabilities) to identify the geographic pattern of REET tax collections.

Unlike property tax estimates, this model yields both historic actuals and provides the basis for dynamic forecasting. 2006 revenue was projected using the REET forecasting model, which predicts future revenue levels based on the statistical sales velocity of like residential parcels (that is, the likelihood that given residential parcels will be involved in a taxable real estate transaction), historic collections and economic indicators, including prevailing interest rates and aggregate housing demand.

The 2006 revenue forecast directly matches the geographic pattern of tax collections, omitting unusual tax payments. Large timberland acquisitions in the rural area have greatly enhanced county REET revenues in recent years. Given the highly unpredictable nature of such transactions, no such revenue is assumed in the forecast. Since this revenue accrues outside of the urban growth boundary, it has little impact on annexation discussions.

## Local Revenue Analysis

### 2006 Estimate by Major Potential Annexation Area Real Estate Excise Tax

East Federal Way	307,279
Eastgate	200,929
East Renton	222,272
Fairwood	1,632,220
Kent Northeast	628,386
Kirkland	1,966,831
Klahanie	457,052
Lea Hill	360,119
North Highline	702,545
West Hill	389,837
Other Urban	1,204,450
<b>Total Urban</b>	<b>8,071,921</b>
<b>Rural</b>	<b>5,787,776</b>
<b>Total Unincorporated</b>	<b>13,859,697</b>

## County Revenue Collection Experience

### Real Estate Excise Tax

Parts 1 & 2 (0.50 percent)

2000	2001	2002	2003	2004	2005
11,410,441	11,744,397	13,586,347	17,087,627	19,806,322	22,576,174

### C. Sales Taxes

Taxable retail sales were analyzed through the county's sales tax database of state combined excise tax returns. Given the complexities of local option sales tax revenue assignment, a multi-tiered approach was undertaken to properly credit taxable retail sales.

Retail establishments, and sales tax filers that reported addresses within unincorporated King County, or had an ascertainable address through telephone directory or internet searches, were directly geocoded into one of the ten major potential annexation areas, other urban, or rural areas.

Receipts from certain industrial classifications were assigned by appropriate demographic factors. Wireless telephone revenue was allocated according to population, automobile and car/vessel registrations according to income-weighted population, construction according to building permits and existing residential and commercial square footage, residential services according to population and housing units and business services according to the number of businesses, adjusted by the number of employees and total wages.

### Local Revenue Analysis

2006 Estimate by Major Potential Annexation Area

#### Local Sales Tax

0.85 General and CJ Population Allocation

East Federal Way	972,308
Eastgate	224,922
East Renton	344,846
Fairwood	3,028,765
Kent Northeast	1,171,056
Kirkland	2,043,159
Klahanie	
Lea Hill	494,569
North Highline	2,339,747
West Hill	741,381
Other Urban	1,237,281
<b>Total Urban</b>	<b>12,598,034</b>
<b>Rural</b>	<b>9,784,238</b>
<b>Total Unincorporated</b>	<b>22,382,273</b>

### County Revenue Collection Experience

#### General Sales Tax

Regional and Local Revenue

2000	2001	2002	2003	2004	2005
73,651,464	71,059,166	68,873,095	68,377,898	72,606,560	76,483,297

### County Revenue Collection Experience

#### Criminal Justice Sales Tax

Regional and Local Revenue

2000	2001	2002	2003	2004	2005
11,822,590	10,958,675	10,485,286	10,453,816	11,041,397	11,812,263

## Potential Annexation Area Sales Tax by Estimate Component

Calendar Year 2004, General Local Option (1.00%) collections

	TOTAL	Manual Geocoding	Construction	Telecom	Cars/Vessels (DOL)	Other	Agricultural	Residential Services	Business Services
East Federal Way	511,966	43,300	278,342	90,152	48,214	14,850	-	15,581	21,526
Eastgate	127,156	1,773	77,509	23,581	13,138	608	-	3,334	7,213
Fairwood	2,185,029	802,749	725,015	180,948	96,827	275,302	-	30,220	73,967
Kirkland	1,369,597	400,250	474,145	162,180	86,896	137,265	-	23,625	85,235
Klahanie	318,522	60,124	114,049	69,515	32,321	20,619	-	7,972	13,923
Lea Hill Remainder	298,624	19,491	189,644	44,546	25,204	6,684	-	6,740	6,315
North Highline	1,681,265	660,245	518,534	93,862	44,229	226,431	-	23,553	114,410
Panther Lake	677,216	149,202	287,856	97,951	49,519	51,169	-	16,886	24,635
East Renton Plateau	184,506	7,192	105,091	33,031	20,793	2,467	-	5,435	10,496
West Hill	440,370	88,536	215,396	50,190	26,694	30,363	-	10,252	18,937
Other Urban	923,284	118,113	533,824	93,475	53,119	40,507	-	12,392	71,853
Total Urban	8,717,572	2,350,975	3,519,406	939,432	496,954	806,265	-	156,029	448,511
Rural (with Redmond Ridge)	6,900,005	1,690,267	2,804,679	814,859	492,763	579,676	74,762	102,545	340,454
Unincorporated	15,617,577	4,041,241	6,324,085	1,754,291	989,717	1,385,941	74,762	258,574	788,965

### Unincorporated Sales Tax Receipts by Mailing Address

Local Option Revenue (1.00%) -- DOR ID 1700

<b>Total 2002 Revenue</b>	<b>16,207,530</b>	<b>100.00%</b>
<b>Non-Washington State</b>	<b>5,982,207</b>	<b>36.91%</b>
<b>Washington State, Non-King County</b>	<b>2,635,512</b>	<b>16.26%</b>
<b>King County</b>	<b>7,589,812</b>	<b>46.83%</b>
Post Office Boxes	1,037,144	6.40%
Physical Addresses	6,552,668	40.43%
Incorporated Areas	1,346,850	8.31%
Unincorporated Areas	5,205,817	32.12%

In total, 26 percent of sales tax revenue was allocated through manual geocoding and another 57 percent by industrial classification. The residual, consisting of smaller establishments with little to no tax liability, was allocated proportionately to other sales tax receipts. The logistical problems inherent in classifying roughly 50,000 combined excise tax returns into twelve geographic subareas cannot be understated.

2006 revenue estimates for each of the potential annexation areas were forecast from 2004 actuals by using weighted industrial classification growth factors from the county sales tax forecast model.

General local sales taxes vary substantially from criminal justice sales tax revenue. General sales taxes are assessed at 1.0 percent on taxable retail sales and are directly tied to location. This revenue is divided between the county (0.15 percent) and cities (0.85 percent), or in the case of unincorporated areas accrues entirely to the county.

Conversely, the criminal justice sales tax revenues are levied countywide at 0.1 percent, with 0.01 percent going to the county and 0.09 percent divided on the basis of population. For this purpose, the unincorporated area is treated like a city, with the county receiving amount proportionate to the unincorporated population's share of total county population, in addition to the initial flat allocation of 0.01 percent.



#### D. Leasehold Excise Tax

The Leasehold Excise Tax is collected by the state department of revenue but disbursed by the county. Each leasehold has been geocoded to the corresponding levy code. Unincorporated levy codes have been subsequently mapped to the ten major potential annexation areas, other urban, and rural areas. This revenue is collected and disbursed on a lagged quarterly basis. The excise tax of six percent is divided between cities and the county on a 2:1 basis. In unincorporated areas, the full six percent accrues to the county and the portion that would go to a city following annexation is classified as a local revenue.

While growth over time occurs as the number and value of leases generally increases, given the fixed nature of many leases, this revenue can be static over sustained periods of time. For this reason, no growth is assumed from 2004 actuals.

#### Local Revenue Analysis

##### 2006 Estimate by Major Potential Annexation Area Leasehold Excise Tax

East Federal Way	9
Eastgate	0
East Renton	35
Fairwood	312
Kent Northeast	0
Kirkland	83
Klahanie	0
Lea Hill	27
North Highline	7,018
West Hill	24,643
Other Urban	3,523
<b>Total Urban</b>	<b>35,650</b>
<b>Rural</b>	<b>43,448</b>
<b>Total Unincorporated</b>	<b>79,098</b>

#### County Revenue Collection Experience

##### Leasehold Excise Tax

Regional and Local Revenue

2000	2001	2002	2003	2004	2005
1,365,977	1,636,092	1,566,490	1,648,472	1,636,271	1,633,382

## E. Gambling Taxes

Revenue from each of the county's licensed gambling establishments was geocoded according to business location into the ten major potential annexation areas, other urban, and rural areas.

2006 gambling revenues were forecasted based on historic growth trends, particularly the inverse relationship between gambling receipts and some economic indicators, and department input during the budget process. Aggregated totals for each potential annexation area were projected to 2006 by applying the same overall forecasted rate of growth.

## Local Revenue Analysis

### 2006 Estimate by Major Potential Annexation Area Gambling Taxes

East Federal Way	30,672
Eastgate	0
East Renton	0
Fairwood	436,540
Kent Northeast	308,222
Kirkland	131,167
Klahanie	0
Lea Hill	0
North Highline	1,046,108
West Hill	1,183,066
Other Urban	17,725
<b>Total Urban</b>	<b>3,153,500</b>
<b>Rural</b>	<b>0</b>
<b>Total Unincorporated</b>	<b>3,153,500</b>

## County Revenue Collection Experience Gambling Taxes

	2000	2001	2002	2003	2004	2005
Bingo	96,792	75,392	55,036	38,183	32,828	17,327
Raffles	2,632	2,201	1,306	2,099	1,334	1,612
Amusement Games	8,299	4,837	3,329	3,074	2,594	2,078
Punch Boards	1,443	7,834	3,130	8,574	2,425	20,458
Pulltabs	774,407	775,989	734,585	740,458	741,944	730,948
Card Rooms	1,287,317	1,726,868	1,837,540	1,891,542	2,269,586	2,606,376
<b>Total</b>	<b>2,172,889</b>	<b>2,595,121</b>	<b>2,636,928</b>	<b>2,685,931</b>	<b>3,052,714</b>	<b>3,380,804</b>

## F. Pet Licenses

Each 2004 new or renewal pet license application was geocoded automatically matching the reported address with addresses in the 2004 Assessment file (for 2005 tax liabilities). Pet licenses outside of the unincorporated area were excluded. Once geocoded, aggregated totals were calculated for each of the ten major potential annexation areas, other urban, and rural areas.

The 2006 pet license revenue forecast was prepared from departmental estimates. Aggregated totals for each potential annexation area were projected to 2006 by applying the same overall forecasted rate of growth.

## Local Revenue Analysis

### 2006 Estimate by Major Potential Annexation Area Pet Licenses

East Federal Way	61,121
Eastgate	11,609
East Renton	28,184
Fairwood	97,900
Kent Northeast	62,760
Kirkland	93,674
Klahanie	23,146
Lea Hill	21,335
North Highline	51,571
West Hill	20,816
Other Urban	83,358
<b>Total Urban</b>	<b>555,474</b>
<b>Rural</b>	<b>380,231</b>
<b>Total Unincorporated</b>	<b>935,705</b>

## County Revenue Collection Experience

### Pet Licenses

Unincorporated and Contract City Revenue

2000	2001	2002	2003	2004	2005
1,898,430	2,036,058	2,142,602	2,388,514	2,625,541	2,576,805

## G. Liquor Excise Taxes and Liquor Control Board Profits

All liquor related revenues are collected by the state and distributed by population-driven formula to local governments. This formula was replicated for the ten major potential annexation areas, other urban, and rural areas.

Liquor related revenues are forecast based on historic collection trends. The overall growth rate assumption is applied uniformly to each of the ten major potential annexation areas, other urban, and rural areas.

## Local Revenue Analysis

2006 Estimate by Major Potential Annexation Area

### Liquor Revenue

East Federal Way	94,174
Eastgate	20,149
East Renton	32,851
Fairwood	182,654
Kent Northeast	102,059
Kirkland	142,794
Klahanie	48,182
Lea Hill	40,736
North Highline	142,356
West Hill	61,156
Other Urban	74,901
<b>Total Urban</b>	<b>942,013</b>
<b>Rural</b>	<b>602,508</b>
<b>Total Unincorporated</b>	<b>1,544,522</b>

## County Revenue Collection Experience

### Liquor Excise Tax

2000	2001	2002	2003	2004	2005
372,094	393,522	404,978	428,298	481,711	518,466

## County Revenue Collection Experience

### Liquor Control Board Profits

2000	2001	2002	2003	2004	2005
804,422	772,162	789,458	919,630	1,081,142	926,695

## H. Motor Vehicle Fuel Tax

Motor Vehicle Fuel Tax revenues are allocated among local governments using one of the most complex and less easily replicated state distribution formulas. The County Roads Division has developed a simplified model as a proxy for the state formula, and this approach is used to allocate current Motor Vehicle Fuel Tax receipts among the ten major potential annexation areas, other urban, and rural areas.

2006 Motor Vehicle Fuel Tax revenues are estimated by applying the state's official forecast to 2004 actuals. The overall growth rate assumption is applied uniformly to each of the ten major potential annexation areas, other urban, and rural areas.

### Local Revenue Analysis

2006 Estimate by Major Potential Annexation Area

#### Motor Vehicle Fuel Tax

East Federal Way	963,551
Eastgate	206,155
East Renton	336,123
Fairwood	1,868,841
Kent Northeast	1,044,221
Kirkland	1,461,013
Klahanie	492,980
Lea Hill	416,792
North Highline	1,456,531
West Hill	625,726
Other Urban	766,359
<b>Total Urban</b>	<b>9,638,292</b>
<b>Rural</b>	<b>6,341,512</b>
<b>Total Unincorporated</b>	<b>15,979,804</b>

### County Revenue Collection Experience

#### Motor Vehicle Fuel Tax

2000	2001	2002	2003	2004	2005
13,473,921	13,338,112	13,520,500	13,591,927	13,364,927	13,803,120

## I. Cable Franchise Fee

Cable Franchise revenue was approximated from King County Office of Cable Communications records. Since data supplied by Comcast does not well coincide with the urban growth boundary or most major potential annexation area boundaries, revenue within overlapping subareas was allocated by household.

### Local Revenue Analysis

2006 Estimate by Major Potential Annexation Area  
Cable Franchise Fee

East Federal Way	243,579
Eastgate	59,213
East Renton	91,571
Fairwood	507,196
Kent Northeast	275,266
Kirkland	398,165
Klahanie	127,232
Lea Hill	94,432
North Highline	413,592
West Hill	193,241
Other Urban	338,794
<b>Total Urban</b>	<b>2,742,281</b>
<b>Rural</b>	<b>784,951</b>
<b>Total Unincorporated</b>	<b>3,527,232</b>

### County Revenue Collection Experience Cable Franchise Fee

2000	2001	2002	2003	2004	2005
2,096,403	2,366,650	2,315,732	2,463,668	2,631,131	3,813,379

## J. Surface Water Management Fees

SWM fees have been omitted from this analysis. These fees are not used for general government purposes and thus are not relevant to a discussion of county revenues. Parcel data is included in the third section of this report to assist cities in calculating SWM revenue following annexation.

### 2006 Surface Water Management Fee Data

Fee type parcel data by major PAA

	Total Parcels [Approximate]	Traditional Residential		Other Parcels		
		N [Flat fee]	Percentage	N [Variable fee]	Average Fee	Median Fee
East Federal Way	7,017	6,781	96.6%	236	\$ 481.44	\$ 0.00
Eastgate	1,823	1,722	94.5%	101	\$ 177.90	\$ 0.00
East Renton	3,038	2,932	96.5%	106	\$ 64.71	\$ 0.00
Fairwood	13,745	13,202	96.0%	543	\$ 853.49	\$ 0.00
Kent Northeast	7,275	7,060	97.0%	215	\$ 279.81	\$ 0.00
Kirkland	11,425	10,980	96.1%	445	\$ 671.21	\$ 0.00
Klahanie	3,393	3,344	98.6%	49	\$ 1,251.65	\$ 0.00
Lea Hill	4,899	4,813	98.3%	86	\$ 1,130.17	\$ 0.00
North Highline	9,387	8,340	88.9%	1,047	\$ 477.33	\$ 0.00
West Hill	5,068	4,674	92.2%	394	\$ 301.72	\$ 0.00

## K. Development-Related Permit and Mitigation Fees

Development related fees have been omitted from this analysis. These fees are premised upon cost recovery; the direct linkage between cost and expense makes such fees irrelevant to a discussion of general government revenues.

## II. Revenue Implications of Annexation

This two-page analysis was prepared by the Economics Section of the City of Seattle Department of Finance. It focuses on a potential Seattle annexation of North Highline and West Hill, but raises general issues applicable to any annexation in King County.

# Tax considerations of annexation

The purpose of this paper is to look at the tax changes that would occur for the West Hill and North Highline communities if they were annexed to the city of Seattle. It focuses on a potential Seattle annexation of North Highline and West Hill, but raises general issues applicable to any annexation in King County.<sup>1</sup>

The major taxes to consider are property, business and occupation (B&O), sales, utility, and monorail. After annexation, residents and businesses will be liable for all the taxes under Seattle's tax structure. In some cases, they will be required to pay new taxes since B&O and utility taxes are not imposed in unincorporated areas. With regard to property tax, they will trade off some levies for others. Figure 1 summarizes the major tax differences between unincorporated areas and Seattle. It is followed by a discussion of how property tax would apply under the two scenarios.

**Figure 1. Tax structure comparison between unincorporated areas and Seattle**

<b>Tax</b>	<b>Unincorporated Area</b>	<b>Seattle</b>	<b>Exceptions/Issues</b>
Property	local rates include road levy and junior districts	local rates are covered under City rate – no junior districts in Seattle	Seattle GO bond debt may be assumed if proposed and approved by 60% majority. Without debt assumption, voter requirement for annexation approval is simple majority.
B&O	not applied	Applied to business revenue	new tax for businesses
Sales	applied to retail and some services	Applied to retail and some services	no change
Utility	not applied	Applied to major utilities including cable, phone, electricity, water and sewer	may exist in parts of unincorporated area if service was already provided by City utility; otherwise new tax
Gambling	Applied to revenue from operation of gambling activities	Applied to revenue from operation of gambling activities	Some change in rates; some gambling activities currently allowed in unincorporated may be prohibited.

## Property Tax

While some of the taxes hit businesses and residents differently, the property tax applies equally to all residential and commercial property owners, and passed on indirectly to renters and lease holders. Regardless of where the property is located in King County, the tax rates for the State, County, Port, and EMS, referred to as the consolidated levy, is the same. The respective school districts would also remain the same. The major difference lies in the local portion of the property tax.

### Local portion

All unincorporated areas are subject to the King County road levy as well as the King County library district. Additionally, West Hill and North Highline are served by their own fire districts. In comparison, Seattle has a local property tax authority of \$3.60 per \$1000 assessed value to cover general governmental services and simple-majority voter-approved levies. Seattle does not have junior districts, but does have long-term bond debt.

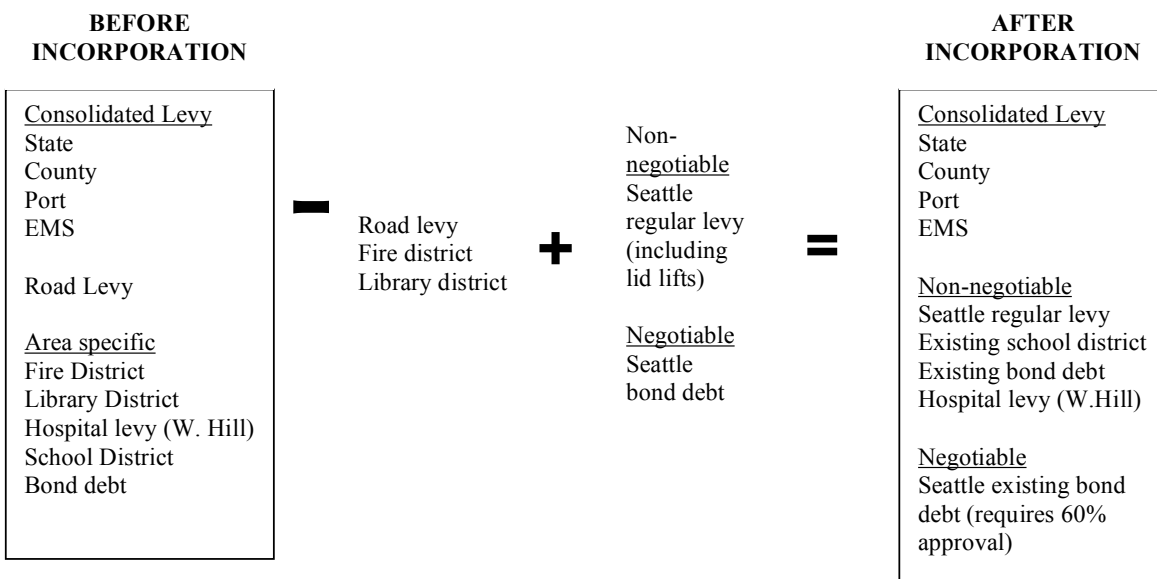
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<sup>1</sup> Much of the language in the first two pages of this analysis was prepared by the Economics Section of the City of Seattle Department of Finance, with updates made to reflect 2005 information.



If incorporated into Seattle, West Hill and North Highline would be subject to Seattle’s regular property tax levy in lieu of the road levy, fire district levy, and library district levy. They would be liable for Seattle voter-approved “lid lifts,” i.e. property tax levies passed by simple-majority of voters in Seattle. Seattle’s lid lifts support education programs, parks, community centers, Seattle Center, low-income housing, and fire facilities. Existing bond debt of West Hill and North Highline would continue after incorporation until expiration of bonds, and West Hill would continue to pay its existing hospital levy. Seattle residents would not assume any bond debt of West Hill or North Highline; however, the opposite may not apply. All or any portion of Seattle’s indebtedness can be included on a proposition for approval. However, the approval requirement increases to a majority of 60% of registered voters of the territory proposed to be annexed, and there are turnout requirements. This is opposed to a simple-majority approval requirement for annexation without assumption of debt. Figure 2 illustrates the trade offs that would occur under incorporation.

**Figure 2. Summary of property tax changes due to incorporation**



By incorporating into Seattle, West Hill and North Highline would probably reduce their property tax liabilities. Using 2005 rates, West Hill would reduce its bill by 5.8% and North Highline by 5.0%. Figure 3 shows how the average tax bill might change under incorporation. Factors that would change the amount of taxes owed when incorporating into Seattle include the passage of voter-approved measures in Seattle.

**Figure 3. Comparison of property tax levy liability before and after incorporation**

Area	average assessed value	2005 Rates per \$1000 AV		Property Tax Owed	
		unincorporated	Annexed to Seattle	unincorporated	annexed to Seattle
<u>North Highline</u>					
Commercial	\$830,000	12.82	11.88	\$10,600	\$10,100
Residential	\$190,000	12.82	11.88	\$2,400	\$2,300
<u>West Hill</u>					
Commercial	\$535,000	12.73	11.69	\$6,800	\$6,400
Residential	\$242,000	12.73	11.69	\$3,100	\$2,900

### Business & Operating Tax

B&O taxes would be new taxes faced by businesses in areas that incorporate; they are not levied in unincorporated areas. Cities have much leeway in how they design their B&O taxes and on what to use as the tax base; therefore, B&O taxes are different for each city. Businesses often must pay an annual licensing fee, the magnitude of this fee may depend on gross business income or number of employees (this is the case in Seattle). In some instances businesses must pay a surcharge for each employee (Renton and Burien). Gross receipts themselves can also be taxed (Seattle, Issaquah and Burien are a few such jurisdictions) and different industries can be taxed at different rates.

#### Local portion

This tax revenue accrues entirely to the city (in this case Seattle) that levies the tax. Seattle charges a flat fee of \$90 per year to businesses with a gross income of over \$25,000 and \$45 per year for those with a gross income of less than \$25,000. Additionally, they levy a tax on the gross receipts of various industries outlined in figure 4.

**Figure 4. Breakdown of Seattle business and operating taxes**

Flat Fee	
Gross receipts < \$25,000	\$45
Gross receipts > \$25,000	\$90
Tax on Gross Receipts	
Service	0.415%
Retail/Wholesale	0.215%
Manufacturing	0.215%
Printing	0.215%
Wheat Wholesaling/Flour Manufacturing	0.022%

**Figure 5. Example business's B&O tax liability upon annexation to Seattle**

Example Business - Service Sector				
	Gross Revenue*	Flat Fee	Tax (.415%)	TOTAL DUE
<b>North Highline</b>				
Mean	\$450,000	\$90	\$1,868	\$1,958
Median	\$90,000	\$90	\$374	\$464
<b>West Hill</b>				
Mean	\$230,000	\$90	\$955	\$1,045
Median	\$60,000	\$90	\$249	\$339

\*These numbers represent estimated gross revenue and do not reflect any particular business or rely on actual gross revenue reporting.

### Sales Tax

The sales tax faced by residents of King County is a composite of several different taxing jurisdictions. Sales tax is slightly more elusive than property tax or business tax in that it can be difficult to assign a particular sale to a single jurisdiction. Internet sales, mobile sales, some delivery services and many business services such as consulting often lack an obvious location by which to report sales. The state and other local jurisdictions have been developing ways to streamline sales reporting. For most businesses, sales are reported where the transaction between customer and business occurs, or where the customer takes possession of a tangible good. Construction industries and residential services report their sales of goods or services where the service was performed.

If annexed, North Highline and West Hill residents would not experience any change in the rates they pay either at local stores or for services at their homes or businesses. The total rate is fairly uniform

throughout King County both in unincorporated areas and incorporated areas, with a few exceptions (a jurisdiction might fall outside the boundary of the Regional Transportation Authority, which levies a small sales tax).

#### Local portion

The effect of annexation on sales tax would be to redirect a portion of the revenue currently received by King County to the city of Seattle. The 'jurisdiction of sale' portion of the general sales tax is directed to the jurisdiction where the sale is reported. Currently, this portion of the tax from sales reported in either PAA goes to the county; if annexed, that portion would go to Seattle. Figure 6 breaks down the sales tax faced by King County residents and figure 7 illustrates where the revenue is received.

**Figure 6. Comparison of sales tax components before and after annexation**

King County Sales Tax Breakdown	
<b>State</b>	<b>6.50%</b>
<b>Local Rate</b>	<b>1.90%</b>
General	1%
County	0.15%
Jurisdiction of Sale	0.85%
Metro Transit	0.80%
Criminal Justice	0.10%
County	0.01%
Jurisdiction by Population	0.09%
<b>Regional Transit Authority*</b>	<b>0.40%</b>
<b>TOTAL</b>	<b>8.80%</b>

\*Applies to most areas in KC

In 2005, King County's total population was estimated to be 1,808,300 people. Approximately twenty percent of that population lives in unincorporated areas. Over thirty one percent of King County residents live in the city of Seattle and about twenty percent in unincorporated areas. If Seattle annexed West Hill it's population would increase by about two and a half percent while the unincorporated population of King County would decrease by about four percent. Similarly, if Seattle annexed North Highline it's population would increase by about five and a half percent while the unincorporated population would decrease by nearly nine percent. Either annexation would affect the criminal justice population-allocated portion of sales tax revenue received by the county and Seattle. Figure 7 describes the impact of annexation on the distribution of the local portion of sales tax.

**Figure 7. Distribution of local sales tax revenue before and after annexation (for sales reported in the PAA)**

	Sales	General (1%)		Criminal Justice (0.1%)			TOTAL
		County	Seattle	County	Seattle	Other KC Jurisdictions	
<b>West Hill</b>							
Unincorporated	\$50,000	\$500	\$0	\$14.07	\$14.26	\$21.67	\$550
City of Seattle	\$50,000	\$75	\$425	\$13.72	\$14.61	\$21.67	\$550
<b>North Highline</b>							
Unincorporated	\$200,000	\$2,000	\$0	\$56.28	\$57.04	\$86.68	\$2,200
City of Seattle	\$200,000	\$300	\$1,700	\$53.05	\$60.27	\$86.68	\$2,200

#### Utility Tax

King County does not levy a tax on providers of utilities, whereas most cities do. By incorporating into Seattle, residents of both West Hill and North Highline would incur a utility tax. Some residents in the North Highline potential annexation area are currently being served by Seattle public utilities; these residents are currently paying utility tax (to Seattle) for those services, and their utility tax for those services would be unaffected by annexation. Utility tax is assessed on companies that provide utility service, but the assessment is passed directly on to customers. Figure 8 outlines Seattle's utility taxes and the effect on residents who annex.

**Figure 8. Seattle's annual utility tax for a typical 3-person household**

Seattle Utility Tax Breakdown									
	Cable	Electric	Natural Gas	Sewer	Solid Waste	SWM	Cellular	Phone	Water
Tax Rate	10%	6%	6%	10%	10%	10%	6%	6%	10%
Annual Rates	\$552	\$863	\$1,265	\$400	\$196	\$136	\$540	\$360	\$600
Annual Tax	\$55	\$52	\$76	\$40	\$20	\$14	\$32	\$22	\$60
								<b>TOTAL:</b>	<b>\$370</b>

The 2006 annual rates here are discussed in section III-B of this report.

### Gambling Tax

Gambling is regulated by the state through the state Gambling Commission. Both cities and counties have the ability to levy gambling taxes, and both King County and Seattle do. Charities and non-profits have some exemption, largely outlined in state law. North Highline and West Hill provide the county with a significant source of revenue through gambling taxes. Seattle has slightly higher rates for certain gambling activities outline in figure 9.

Of significance is Seattle's ban on commercial social card rooms. Gambling taxes collected from social card rooms comprise approximately eighty percent of all gambling taxes collected by the county in North Highline, and nearly ninety percent in West Hill. If these areas were annexed, it is unclear whether existing social card rooms in North Highline and West Hill would be allowed to continue to operate. New establishments would likely be prohibited in conducting social card games. If existing social card rooms in North Highline and West Hill were forced to close following annexation, a large portion of the gambling tax revenue that is currently collected by the county would not be collected by Seattle.

**Figure 9. Comparison of gambling tax liability by gambling type in unincorporated and Seattle.**

Gambling Taxes								
	Unincorporated				Seattle			
	Rate	Amount Exempt	Gross Revenue	Tax	Rate	Amount Exempt	Gross Revenue	Tax
Amusement Games	2%	\$10,000	\$20,000	\$200	2%	\$0	\$20,000	\$400
Bingo	5%	\$10,000	\$20,000	\$500	10%	\$0	\$20,000	\$2,000
Card Rooms	11%*	\$0	\$100,000	\$11,000	0%	\$0	N/A	N/A
Pull Tabs	5%	\$0	\$20,000	\$1,000	5%	\$0	\$20,000	\$1,000
Punch Boards	5%	\$0	\$20,000	\$1,000	5%	\$0	\$20,000	\$1,000
Raffles	5%	\$10,000	\$20,000	\$500	10%	\$0	\$20,000	\$2,000

\*The King County Council is currently considering an ordinance that would raise the card room tax to 14%. Seattle does not allow establishments to operate social card games. The gross revenue is an example amount and does not reflect any particular business or statistical average.

### III. Prospective Municipal Collections: Estimation Methodology for Unincorporated Areas

#### A. Imputation of Equivalent Revenues

For the bulk of current revenues, current collections can be easily imputed into municipal revenues. For example, the local portion of sales tax collections (excluding the regional 0.15 percent that remains with the county) directly transfers, as does the leasehold excise tax, and gas tax. Other revenues involve the same base but the application of a different rate – property taxes, surface water management fees, and gambling taxes (where legal). Finally, liquor revenues use the same formula but a different pool of funds for cities than counties, resulting in a different calculation.

#### B. Utility Taxes

Utility tax revenue estimates were prepared for the potential annexation areas, other urban areas, and the rural portion of unincorporated King County from a variety of statistical sources.

For each utility classification, separate usage estimates were prepared primarily using 2000 Census block group data and King County Assessor records. Key variables were the prevalence of utility water service, sewage service, primary source of household heat, dwelling type, size, and age, and the age distribution of residents.

Some utility classifications, most notably telephone and water service, are universally available and were allocated proportionate to the number of households, adjusted only

#### 2006 Unincorporated Utility Tax Revenue Estimate Revenue per percentage point of utility tax

	East Federal Way	Eastgate	East Renton	Fairwood	Panther Lake	Kirkland	Klahanie	Lea Hill Remainder	North Highline	West Hill	Other Urban	Total Urban	Rural	Total Unincorporated
Cable	37,474	9,110	69,336	78,030	42,349	61,256	19,574	14,422	63,630	29,729	52,125	421,566	104,661	526,226
Drainage/SWM	3,318	1,707	2,696	13,397	6,134	11,796	3,216	2,052	7,703	4,839	5,761	62,618	-	62,618
Electricity	151,427	26,929	37,935	288,301	167,250	250,627	43,820	65,339	277,015	103,311	116,569	1,428,521	475,035	1,903,557
Natural Gas	57,977	4,445	19,071	149,245	84,637	76,395	22,437	13,240	63,995	19,788	69,773	581,003	132,214	713,217
Sewer	27,610	6,222	11,407	51,202	34,221	43,424	14,648	11,666	42,647	18,666	26,171	287,884	-	284,845
Solid Waste	35,951	8,102	14,853	66,670	44,559	56,543	19,073	15,191	55,530	24,305	34,077	374,852	129,883	504,736
Telephone	43,731	9,947	15,628	91,571	46,509	69,886	22,009	18,994	72,201	34,001	34,982	459,460	248,085	707,545
Cellular	42,707	10,387	14,980	80,413	47,210	72,521	33,622	21,413	41,371	20,966	44,336	429,926	269,107	699,033
Water	29,479	11,210	12,179	54,668	36,538	84,035	28,346	12,456	68,300	29,894	36,711	403,817	71,094	474,911

#### Typical Household Utility Bill Components

2006 Rate Projection

Puget Sound Energy		Seattle City Light		Comcast			
Natural Gas	Electricity	Electricity	Cable Television	Telephone	Cellular	Water/Sewer	
80 CCF/month	1,000 kwh/month		Basic	Basic	Basic		
1,265	820	863	552	360	540	1,000	

## Age of Residential Structures

August 2005 Assessor Mainframe Data Extract

	Year of Construction		Year of Renovation		
	Mean	Median	Parcels [Percentage renovated]	Mean	Median
East Federal Way	1976	1976	1.8%	1982	1987
Eastgate	1962	1955	2.3%	1992	1993
East Renton	1971	1969	0.9%	1991	1991
Fairwood	1976	1977	1.1%	1992	1992
Kent Northeast	1978	1978	0.8%	1983	1988
Kirkland	1974	1973	1.6%	1986	1988
Klahanie	1990	1989	0.0%	1996	1996
Lea Hill	1985	1992	1.0%	1986	1986
North Highline	1952	1951	5.2%	1975	1978
West Hill	1955	1952	2.4%	1987	1990

## Characteristics of Residential Structures

August 2005 Assessor Mainframe Data Extract

	Stories	Bedrooms	Square Footage Total Livable Space		Bathrooms			
	Mean	Mean	Mean	Median	Full [Mean]	Three-Fourths [Mean]	Half [Mean]	Total [Mean]
East Federal Way	1.31	3.31	1,766	1,670	1.38	0.37	0.47	2.22
Eastgate	1.14	3.49	1,789	1,570	1.25	0.41	0.33	1.98
East Renton	1.17	3.37	1,815	1,730	1.23	0.48	0.37	2.07
Fairwood	1.33	3.43	1,928	1,860	1.40	0.45	0.46	2.32
Kent Northeast	1.31	3.41	1,816	1,780	1.42	0.44	0.50	2.36
Kirkland	1.26	3.46	1,929	1,800	1.32	0.61	0.43	2.36
Klahanie	1.93	3.41	2,217	2,130	1.87	0.18	0.91	2.97
Lea Hill	1.53	3.53	2,106	2,080	1.63	0.33	0.58	2.53
North Highline	1.06	2.97	1,408	1,320	1.12	0.23	0.17	1.52
West Hill	1.11	3.13	1,693	1,610	1.20	0.34	0.22	1.76

## 2000 Census Data Extract

Bureau of the Census Logical Record Number corresponding to major Potential Annexation Areas

Proportion of households with utility service available (telephone, plumbing).

Primary heating source of households (utility gas, electricity).

logrecno	Population	Housing Units	Telephone	Plumbing	Utility Gas	Electricity
4908	8,215	2,730	99.71%	100.00%	41.3%	27.1%
4924	11,436	4,241	99.43%	99.65%	41.5%	33.6%
6740	6,870	2,337	99.36%	99.02%	73.9%	12.6%
East Federal Way		9,308	99.50%	99.59%	49.55%	26.31%
5355	4,558	1,743	99.09%	99.54%	53.9%	15.0%
Eastgate		1,743	99.09%	99.54%	53.88%	14.89%
5254	25,754	10,134	99.57%	99.57%	43.4%	30.0%
Fairwood-Petrovitsky		10,134	99.57%	99.57%	43.41%	29.92%
5411	22,661	8,553	99.74%	99.62%	53.4%	25.7%
5514	12,222	4,424	99.47%	100.00%	56.8%	23.8%
Finn-Juanita-Kingsgate		12,977	99.65%	99.75%	54.57%	24.98%
6551	27,787	9,553	99.83%	99.78%	54.0%	26.3%
8290	1,521	531	100.00%	100.00%	41.1%	23.2%
Kent Northeast		10,084	99.84%	99.79%	53.30%	26.05%
6387	2,977	980	100.00%	100.00%	84.5%	7.1%
6391	7,976	2,817	100.00%	100.00%	60.9%	19.8%
Klahanie		3,797	100.00%	100.00%	67.02%	16.49%
6187	8,187	2,862	98.43%	100.00%	42.9%	31.5%
6752	2,684	892	100.00%	100.00%	77.2%	9.4%
Lea Hill Remainder		3,754	98.80%	100.00%	51.04%	25.84%
6811	11,188	4,662	97.01%	99.26%	20.7%	37.1%
7983	20,975	7,775	98.59%	98.87%	19.4%	38.3%
North Highline		12,437	98.00%	99.01%	19.89%	37.06%
5390	4,904	1,775	100.00%	100.00%	60.7%	20.4%
Renton East		1,775	100.00%	100.00%	60.71%	20.43%
5241	2,812	1,302	100.00%	100.00%	24.0%	33.4%
6411	11,165	4,483	98.91%	100.00%	20.7%	36.9%
West Hill		5,785	99.16%	100.00%	21.46%	35.80%

logrecno	Population	Housing Units	Telephone	Plumbing	Utility Gas	Electricity
10092	6,129	2,044	97.95%	99.90%	14.6%	35.7%
10101	5,812	2,023	100.00%	99.11%	14.8%	43.9%
10116	2,570	939	98.19%	100.00%	40.8%	25.8%
10133	3,224	1,221	99.07%	97.37%	1.4%	28.2%
10137	4,035	1,553	96.78%	100.00%	13.7%	37.8%
10142	4,353	1,492	99.46%	99.46%	55.7%	23.1%
10175	3,943	1,427	99.57%	100.00%	30.4%	29.4%
10187	3,524	1,213	100.00%	100.00%	59.7%	19.3%
10191	2,670	953	100.00%	100.00%	26.1%	33.6%
10210	2,905	1,089	100.00%	100.00%	5.5%	39.7%
10214	4,802	1,701	99.02%	99.69%	20.9%	28.4%
10245	4,566	1,767	99.64%	99.58%	33.6%	35.7%
10300	6,130	1,965	99.38%	100.00%	63.3%	21.0%
10307	5,135	1,660	100.00%	100.00%	70.9%	17.2%
10317	4,634	1,448	100.00%	100.00%	77.9%	14.0%
10322	5,016	1,756	99.19%	100.00%	60.8%	21.4%
10387	4,903	1,814	98.11%	99.02%	16.9%	34.4%
10392	2,690	1,060	99.52%	100.00%	28.0%	33.3%
10399	6,307	2,529	99.65%	99.48%	15.2%	47.6%
10415	2,696	1,376	96.02%	96.68%	14.1%	35.9%
8420	5,161	2,402	98.87%	98.69%	11.5%	36.5%
8427	4,962	2,465	98.22%	99.06%	18.7%	32.1%
Rural / Vashon		35,897	99.00%	99.43%	30.64%	31.07%

## Unincorporated Demographics

2000 Census Data by Major Potential Annexation Area

	Population	Housing Units	Average Household Size	Median Household Income	Median Age
East Federal Way	20,350	7,180	2.90	62,400	36.1
Eastgate	4,558	1,743	2.66	65,600	37.0
East Renton	7,370	2,650	2.80	65,300	38.2
Fairwood	39,430	15,080	2.65	58,000	35.4
Kent Northeast	23,555	8,138	2.97	65,700	34.9
Kirkland	31,723	11,811	2.75	69,800	34.9
Klahanie	10,953	3,797	2.99	84,700	32.4
Lea Hill	8,171	2,794	2.98	65,700	32.6
North Highline	32,035	12,330	2.68	39,950	33.4
West Hill	13,977	5,780	2.50	47,385	38.0



## Comparison of Primary Heating Source Data

	Bureau of the Census		King County Assessor						
	Natural Gas	Electricity	Oil	Gas	Electricity	Oil with solar	Gas with solar	Electricity with solar	Other
East Federal Way	49.5%	26.4%	7.8%	72.8%	19.2%	0.0%	0.0%	0.1%	0.0%
Eastgate	53.9%	15.0%	48.5%	42.3%	9.1%	0.0%	0.1%	0.1%	0.0%
East Renton	60.7%	20.4%	11.4%	65.7%	22.7%	0.0%	0.2%	0.0%	0.0%
Fairwood	43.4%	30.0%	6.6%	83.7%	9.3%	0.0%	0.3%	0.0%	0.0%
Kent Northeast	53.3%	26.1%	6.4%	79.0%	14.5%	0.0%	0.0%	0.1%	0.0%
Kirkland	54.6%	25.1%	3.9%	81.2%	14.7%	0.0%	0.2%	0.0%	0.0%
Klahanie	67.0%	16.5%	0.3%	99.1%	0.5%	0.0%	0.1%	0.0%	0.0%
Lea Hill	51.0%	26.2%	7.6%	70.6%	21.6%	0.0%	0.0%	0.1%	0.0%
North Highline	19.9%	37.8%	40.0%	36.4%	23.5%	0.1%	0.0%	0.0%	0.0%
West Hill	21.5%	36.1%	49.2%	29.7%	21.0%	0.0%	0.0%	0.0%	0.0%

for the size of the family and dwelling. Cable television and solid waste utility revenue was estimated using existing county data for the unincorporated area.

Electricity and natural gas, however, presented much larger logistical problems. To start, Puget Sound Energy, which provides both electricity and natural gas utility service over the majority of unincorporated King County, declined to share revenue information for the area. Although regulated by the state, Puget Sound Energy is only required to divulge state level statistics. Seattle City Light did provide electricity consumption data for the unincorporated sections of its service area – West Hill and North Highline.

Stark differences in electricity and natural gas consumption exist between households; demographics and housing characteristics are used to account for this substantial variance across major potential annexation

areas. Further adjustment was made to composite household profiles to account for differences in utility services from regulated utility rates. The resulting aggregate totals are shown for each major potential annexation area by utility category. Since the focus was estimating household consumption patterns, small adjustments were needed to capture commercial and industrial properties. In general, non-residential utility consumption was assumed as a multiple of the value of buildings and improvements on each non-residential parcel. Apartments and condominiums were modeled in a similar fashion, with adjustments made for total square footage, structure age, and heating source.

Small statistical adjustments were made to reflect changes since 1999 (the target year for most 2000 Census questions), and inflation factors were applied where appropriate to anticipate 2006 levels.

## Primary Heating System

August 2005 Assessor Mainframe Data Extract

	Floor-wall	Gravity	Radiant	Baseboard [electric]	Forced air	Hot water	Heat pump	Other
East Federal Way	1.7%	0.0%	0.4%	10.5%	84.2%	0.8%	2.4%	0.0%
Eastgate	2.3%	0.0%	0.2%	5.7%	90.2%	0.7%	0.9%	0.0%
East Renton	5.9%	0.0%	0.2%	11.5%	78.0%	1.4%	2.9%	0.0%
Fairwood	2.6%	0.1%	0.2%	4.9%	90.6%	0.5%	1.2%	0.0%
Kent Northeast	0.8%	0.0%	0.3%	6.4%	90.8%	0.6%	1.1%	0.0%
Kirkland	0.5%	0.1%	0.2%	8.7%	88.6%	0.8%	1.2%	0.0%
Klahanie	0.1%	0.0%	0.0%	0.3%	99.2%	0.0%	0.4%	0.0%
Lea Hill	0.6%	0.0%	0.4%	12.8%	82.0%	1.1%	3.1%	0.0%
North Highline	9.8%	0.8%	1.5%	16.0%	69.1%	2.0%	0.7%	0.1%
West Hill	7.3%	0.7%	1.6%	12.5%	72.9%	3.8%	1.1%	0.0%

### C. Business Licenses and Gross Receipt Taxes

Business license revenue is easily calculated from covered employment data.

The state does not collect data on local business gross receipts, making prospective local business tax estimates difficult. We have used covered employment data to estimate gross receipts by using wages, numbers of workers, statewide reported gross receipts and business square footage. Given the high variability of such estimates, the revenue number is one standard deviation below the median forecast.

### IV. County Revenue Forecasting Overview

The King County Office of Management and Budget maintains a variety of forecasting models with which to analyze, estimate, and forecast revenue collections. These models are dynamically linked, providing data annually for the King County Executive's Proposed Budget, and four times each year for the Quarterly Budget Report and Quarterly Economic Report.

Sales tax collections account for the largest year-to-year variance in the county budget. Over the past decade, actual collections have swung up or down, on average, by \$3.5 million annually. Detailed data is needed to provide accurate forecasts. Although King County legally imposes local option, criminal justice, and transit sales taxes totaling up to 1.9 percent of retail sales in some parts of the county, the state Department of Revenue (DOR) collects and administers the tax. DOR has transitioned through a variety of mainframe and minicomputer systems since local option sales tax collections commenced in 1976.

The Office of Management and Budget has developed one of the most extensive sales tax forecasting models in the country. Detailed monthly tax collection statements date back to 1983, including 14 years recovered from data tapes. The amount of data involved is substantial. Each tax collection statement contains detailed accounting by place of business of taxable retail sales and use tax receipts. Firms are classified by SIC, and for more recent years, NAICS. Extensive identification information, from self-reported mailing address to business license and corporation identification numbers are also included, including information on payment delinquencies, appeals, and accounting corrections. Altogether, a typical month will include 200,000 entries – nearly five million records.

Such data is important due to the nature of excise and sales tax reporting in Washington state. Depending on the size of gross revenues, firms are required to report on an annual, quarterly, or monthly basis (and semi-annually in the past). Payments are due to the state treasurer during the month following the tax collection period, and are reported and disbursed to the county during the third week of the second month following the tax collection period.

For example, on February 21, 2003, the county received the February 2003 disbursement from DOR. This disbursement covered returns for three tax collection periods – monthly returns for December 2002, quarterly returns for the 4th Quarter of 2002 (October, November, and December), and annual returns for the 2002 calendar year. Tax payments received by DOR after late January 2003 were not included in the February disbursement; there is typically a lag of six weeks between receipt of payment and disbursement of delinquent tax revenues. As a consequence, up to 20 percent of a given disbursement payment consists of delinquent tax activity, with wide swings in delinquency rates from month to month defying simple seasonal and economic cycles.

Two other data sets are combined with collection data in the sales tax forecasting model. Business and occupation tax collections and state utility tax receipts are useful indicators of business conditions, while quarterly comprehensive employer/employee data from the state Employment Security Division on wages covered in the unemployment insurance system provide the single best indicators of localized economic health.

A second major model maintained by the Office of Management and Budget forecasts property tax revenue – specifically annual new construction activity. Initiative 747, approved in November 2001, limits regular property tax levy revenue growth to one percent plus the value of new construction as a proportion of total assessed value. Sales tax filings and covered employment by construction firms are the primary variables in this model, as well as periodic updates from the assessor's office.

Several other econometric models are maintained to project the Real Estate Excise Tax, Auditor Recorder Filing Fee, Delinquency and Penalty Fees, Rental Car Taxes, Interest Earnings, and a host of other revenues. An outyear projection model provides detailed three-year forecasting of approximately 200 smaller general fund revenues.